

Chairman's Address

Annual Meeting of Shareholders

27 October 2010

Introduction

When I spoke this time last year at our Annual Meeting in Auckland, signs were positive that the worst of the recession was over.

We remained cautious, however, as it appeared that recovery would probably be slower in our Industrial markets due to the nature of our businesses.

As it turned out, our first half performance was indeed marked by the lingering effects of the global recession, being down significantly (by 49%) on the previous corresponding half year.

All the same, the first half outcome was 26% ahead of that for the six months ended 30 June 2009, reflecting the fact that the recession was finally abating.

Most customers resumed ordering across our businesses, especially in the fourth quarter, to give us a solid boost in the second half year. The increase was such that our second half EBIT across both divisions turned out to be our best second half performance since listing.

Now, before I get into more detail, I must acknowledge our presence here in Christchurch.

This Annual Meeting is our first held here since listing.

It's appropriate that we're here in Skellerup's Centennial Year.

But, more than anything else, I'm glad we're here so that we can recognise the impact of the September 4th earthquake and its aftermath on Skellerup, and praise the customer focus and dedication of our staff throughout these difficult times.

Christchurch earthquake

Skellerup has more than 200 staff in Christchurch.

Thankfully, no one was injured. The management team were clear about their focus: ensure no disruption to customers, and help our people where we can.

The Company not only paid its people on time; we also paid all temporary employees. We organised our resources to help those worst affected, and we ensured a safe working environment for all employees as they returned to work. These were the right things to do.

Despite their personal difficulties our staff has worked hard to quickly return our business to normal operations. Without this exceptional effort, our customers would have suffered and our reputation for reliability would have been damaged. Our international customers have been pleased with our clear communication and uninterrupted supply. I am full of praise for our staff and feel proud of our Company. In the event, the Company suffered little or no significant damage to buildings or machinery, largely through good processes and procedures that were already in place: inventory was well secured and equipment was shut down safely.

So, despite the magnitude of the disaster our customers felt little or no impact at all.

Of course there are always opportunities to improve our processes and we are already seeing these, but it was a great effort.

Company situation overall

As you will know by now, we came through the recession relatively well, and we are now looking to grow the business.

Improved revenues and earnings across both the Agri and Industrial Divisions, during the second half of the year, and particularly during the fourth quarter, showed that we were well positioned to take early advantage of better trading conditions – particularly in our industrial markets.

Revenue increased by 16.1% in the second half, taking us to a final result on par with the previous corresponding period, and while sales remained flat for the full year, the momentum built in the second half enabled us to achieve a significant profit increase.

Net profit after tax from continuing Operations for the full year (NPAT) grew 33.0% to \$11.9 million, compared with \$9.0 million for the previous year.

Trading NPAT came in at \$14.5 million before one-off abnormal costs, compared with \$9.7m in 2009: an improvement of 48.7%.

An additional highlight has been our level of cash generation, which has been very good throughout the year, with net cash flows from trading activities close to \$24 million.

We can point to a number of courses of action implemented in recent years that contributed to our speedy response to the improved market conditions:

- We placed special focus on improving systems in production and supply chain management, resulting in reduced costs;
- We continued to invest in product development in technical polymer products, where we hold a strong niche position;
- We reorganized and strengthened areas of specialist capability within the Group;
- We maintained our position with existing sales and marketing networks and extended our channels into North America, as well as further developing our market within Australia, and we introduced our product range to new geographical markets in Europe and in South America;
- And, finally, we actively reduced debt.

Bank/Debt Position

The successful capital raising exercise we undertook in October 2009 by way of a 2-for-5 rights issue at 40 cents raised \$20.7 million. This, along with good cash generation throughout the year, enabled us to reduce the Group's bank debt in total by \$38.1 million by year end. This has resulted in a substantial improvement in our gearing ratio (net debt to net debt-plus-equity), from 48% to 21%, which means we easily comply with our banking covenants. Our multi currency loan facility with ANZ National Bank has been renewed through to September 2012.

Industrial division

The improved trading climate – particularly in the second half– benefited the Industrial Division.

As long as the automotive market continues to recover – and we see good growth in demand for roofing, plumbing, flow control and general industrial products – we expect the Industrial Division to carry on making a significant contribution to the bottom line in the coming year.

Agri division

Agri Division's revenues, coming largely from sales of indispensable dairy consumables, were somewhat cushioned from the worst effects of the global economic crisis.

We anticipate good earnings growth from the Agri Division, based on continued steady build in demand for our range of essential dairy consumables, coupled with the forecast dairy industry upswing driving increased demand for our range of capital equipment.

Dividend

We have re-affirmed the company's policy to return to shareholders each year a total dividend payout within the range of 40% to 60% of Net Profit after Tax (NPAT).

Accordingly, you will have received a final dividend for the year of 2.5 cents per share last Thursday the 21st of October.

The strike price for the Dividend Reinvestment Plan was approximately 92 and a half cents per share.

Skellerup People

During the year we said farewell to long-standing Managing Director Donald Stewart. Until a permanent replacement is announced, David Mair will continue as Acting Chief Executive Officer.

We recognise the considerable contribution made by Donald over more than 30 years within Skellerup, and we appreciate David's willingness in taking up the role of Acting Chief Executive.

The Board also acknowledges the efforts during the past year of our loyal and dedicated global staff and management team. This applies most notably to our Christchurch people – who, as I mentioned earlier, must be commended for getting to work despite the upheaval in their personal lives to make sure supplies to customers continued uninterrupted.

Macro

Turning to the global economic situation... while we see encouraging signs that world markets for our industrial products are, by and large, returning, we cannot discount completely an ongoing patchy performance within parts of our business while confidence recovers.

You will all be aware of recent economic data coming out of the USA and Europe pointing to on-going growth being slower than originally forecast.

With the northern hemisphere summer vacation now over, the coming months will give us a more reliable indication of our prospects.

Outlook

Looking forward now to the coming year, we see a positive outlook for the Industrial Division generally, and opportunities are definitely emerging from our intensive development of technical polymer products for niche markets.

For the Agri Division, we anticipate ongoing earnings growth based on a continued steady increase in local and offshore demand for our range of essential dairy consumables. Nevertheless the prospect of increased demand for capital equipment may be delayed, mainly due to financial constraints and an understandable reticence to commit to new projects.

In summary, while we see the outlook for the coming year as being positive for both divisions, the growth achieved in the second six months to June 2010 may be difficult to sustain at that rate for any significant length of time into the new year, given that some of that growth was in reality a result of customer re-stocking.

Taking all the above into account, and remaining aware of the somewhat uncertain global economic environment we are currently trading in, we continue to forecast earnings at the NPAT level for the June 2011 year to be within the range from \$16m to \$17m.

Centenary

Before concluding I will briefly touch on the celebration of Skellerup's centenary.

This year's centenary is a tribute to the vision and energy that has built Skellerup into a major international specialist in developing, manufacturing, marketing and distributing an extensive range of technical rubber products.

We've come a long way in the 100 years since George Skjellerup set up his first Para Rubber store here in Christchurch.

George's confidence in his business was reflected in his slogan: "We have it in stock, will get it, or it isn't made of rubber."

George took the company through two world wars, a worldwide depression, diversification, consolidation and eventual listing on the New Zealand Stock Exchange. It was his drive and insight that underpinned the success of the company that today proudly bears his name.

We are pleased to say that we continue to uphold the traditions of innovation, value and service that George Skjellerup represented throughout his life.

Conclusion

A few concluding remarks.

I appreciate that for many people here in Christchurch the difficulties caused by the earthquake are still very apparent.

But thanks to the commitment of our staff, plus first class systems and processes and a dash of good luck, Skellerup has been able to come through this crisis in good shape.

Similarly, although the global economic crisis left many companies in ruins we can take pride in the fact that through our conscientious hard work and prudent management we are in better shape now than before the crisis hit.

But this is no time for complacency. Markets are still hesitant, the threat of double-dip recession has not entirely receded, and our competitors never sleep.

We will continue to build capacity, emphasise innovation, and always be willing to adapt to changing economic and market conditions. As it is, we now exist in an environment characterised by lower certainty of demand, and a market that increasingly demands ever shorter lead times and more and more flexibility.

With indications that the recovery in the markets for our industrial products in particular is now not only sustainable but gathering some momentum, and while markets for our Agri products continue to be positive, we face the coming year with a reasonable level of confidence.

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